



Prospects of an EU-Mercosur trade agreement for the Dutch agrifood sector

Siemen van Berkum

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This report provides insights into the current trade relations between the EU and Mercosur and assesses impacts of a comprehensive trade agreement between the two blocs on the Dutch agrifood sector. Trade opportunities of Dutch fruit & vegetables and dairy products would expand if an agreement would reduce the currently high trade costs related to divergent non-tariff measures, such as pest risk analysis procedures and labelling requirements. Beef and poultry supply from Mercosur is very competitive and is expected to gain from any improved access to EU markets, resulting in more competitive pressure for the Dutch industry on its main markets.

Dit rapport biedt een overzicht van de huidige handelsrelaties van de EU met Mercosur en maakt een inschatting van de gevolgen van een handelsakkoord tussen beide blokken voor de Nederlandse agro-sector. Voor de Nederlandse voedingstuinbouw en zuivelsector ontstaan exportkansen als een akkoord de kosten terugdringt die voortkomen uit verschillen in zogenoemde non-tarifaire maatregelen (bijvoorbeeld procedures om plantziektetrisico's te voorkomen, of labelisen). Het aanbod van rund- en pluimveevlees uit Mercosur is sterk competitief. Een verruiming van de toegang tot de EU-markt zal betekenen dat de Nederlandse vleesindustrie meer concurrentie krijgt op haar belangrijkste afzetmarkten.

Key words: trade, agrifood, EU, Mercosur, Brazil, Argentina, Uruguay, Paraguay

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Preface

The EU and Mercosur - the South American customs union comprising Argentina, Brazil, Paraguay, Uruguay, and since 2012 Venezuela - are considering to reignite the talks about a trade agreement between the two blocs. Negotiations for a trade deal started in 1999 and were suspended in 2004 when the two sides were unable to reach an agreement regarding agricultural trade liberalisation. Negotiations were re-started in 2010 yet without any follow-up since the last negotiation round took place in October 2012. In Spring 2014 Mercosur countries indicated to be ready for a next round in which they would like to exchange market access offers. Negotiators announced to plan for meetings to discuss new proposals by late autumn 2014. These signals instigated this study. However, at the closing of this report in February 2015 no new round of negotiations had started.

This report offers insights into the current trade relations between the EU and Mercosur and bottlenecks to enhance these relations in agriculture and food. Trade costs in terms of administrative (border) measures and other 'behind-the-border' measures related, among others, to food safety and environmental protection are significant. Trade opportunities, therefore, may increase if these barriers are reduced. The Dutch agrifood sector, with its strong orientation on trade, may gain if regulatory divergences that exist between the EU and Mercosur countries will be addressed. However, more open borders will also imply more competition from Mercosur agrifood companies on the Dutch and EU market.

The study has been commissioned and financed by the Ministry of Economic Affairs. The author gratefully acknowledges the valuable comments on earlier drafts of the report of Mr. Jochem Porte and Mr. Gijs Zeestraten, both at the ELV-department of DG Agro. A special thanks goes to the business representative Inge Ribbens (FrugiVenta), Jan Maarten Vrij (NZO), Wim Kloosterboer (KFC) and Frans van Dongen (CVO) for their sharing their expertise on the matter. LEI colleague Gerdien Meijerink is also thanked for her comments and suggestions on the final draft.



Ms. L.C. van Staaldunen
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Summary

S.1 Key findings

Non-tariff barriers are reducing opportunities to trade between the EU and Mercosur countries. The Dutch agrifood sector, most particularly producers of fruit & vegetables and dairy, are interested to export to Mercosur but onerous and time consuming procedures to get export approval hinder efforts to seize these opportunities.

The Dutch meat industry, currently protected by import tariffs and tariff-rate quotas, would face increased competition from Mercosur suppliers at the EU market in case market access is liberalised and the meat industry in Mercosur countries is able to further enhance its capacity to comply with the EU's food safety standards.

S.2 Complementary findings

Trade flows between the EU and Mercosur are particularly unequal, which means that interests in negotiations to liberalise bilateral trade are asymmetric. Exports from the EU to Mercosur consist largely of industrial goods whereas EU imports from Mercosur are dominated by agricultural products. Agricultural trade relations of the EU and the Netherlands with Mercosur countries are extremely lopsided, with imports far exceeding the value of exports to Mercosur, indicating Mercosur has a comparative advantage in agriculture and food products.

Literature on the impacts of trade liberalisation scenarios generally arrive at similar conclusions on the positive economic impacts on both sides, with - in terms of GDP growth - more positive estimates for Mercosur than for the EU. The economic losses and the adjustment pressures arising from a bilateral trade agreement between the EU and the countries of Mercosur would, as far as the EU is concerned, fall very heavily on the agricultural sector. Within the agricultural sector, effects of a bilateral trade agreement are negative for EU producers of meat (particularly beef, but also poultry), sugar and dairy, and some types of fruit and vegetables. The largest export gains are estimated for EU's olive and olive oil sector.

Most assessments of trade liberalisation impacts do not take non-tariff barriers into account, even though these reduce opportunities to trade between the EU and Mercosur countries in important ways. For example, Mercosur ranks poorly in several indices (trade enabling, ease of doing business, global competitiveness) and the costs to import are relatively high due to time consuming customs procedures, and the quality of infrastructure and institutions dealing with imports and exports.

Trade cost equivalents of Mercosur NTMs are particularly serious for EU exports of beverages, livestock and vegetables and fruits. Trade costs faced by Mercosur exporters crossing the EU border are high too for fruits, dairy, sugar and beverages. These estimates indicate that NTM trade costs are an important factor in bilateral agricultural trade between the EU and Mercosur.

This is also emphasised in the three case studies in this report. The procedure to complete a Pest Risk Analysis (PRA) to get export approval is rather time consuming and a major bottleneck for Dutch fruit and vegetables to enter the Mercosur market. An FTA should contribute to a much smoother PRA process. Dutch exporters of pears do see opportunities in Brazil and now that Brazil has approved the export certificate procedure for Dutch pears per 20 January 2015 these opportunities may be explored. Other fruit traders are also actively looking for more opportunities to import a range of fruits from Mercosur to source the EU and beyond.

Dairy export to Mercosur is hindered by strict labelling requirements and Brazil's export listing system that requires detailed inspections at the companies' premises. The EU/Dutch dairy industry believes that a trade agreement would improve export opportunities to a growing market for dairy products.

Brazil (beef, pork and poultry) and Argentina (beef and poultry) are strong players in the international meat markets (with Uruguay and Paraguay strong beef exporters), and are more competitive compared to EU suppliers in terms of price and quality. A further reduction of EU import tariffs and/or increase of tariff-rate quotas would result in increased competition from Mercosur suppliers at the EU market. This will be even more so if the meat industry in Mercosur countries is able to further enhance its capacity to comply with EU's food safety standards.

S.3 Method

This report was commissioned by the Ministry of Economic Affairs. The report's main objective is to provide insights into the impacts of a future trade agreement between the EU and Mercosur countries on selected Dutch agrifood sectors and subsectors and for specific products. The study is based on a literature review, statistical analyses of trade and food industry data, and on interviews with business representatives to obtain insight into the major barriers to trade and the industry's view on offensive and defensive interests.

Samenvatting

S.1 Belangrijkste uitkomsten

Niet-tarifaire maatregelen belemmeren de handel tussen de EU en de Mercosur-landen. De Nederlandse agrofoodsector, vooral de voedingstuinbouw en de zuivelsector, is geïnteresseerd om naar Mercosur te exporteren maar lastige en tijdrovende exportprocedures vormen een belangrijk knelpunt om de mogelijkheden te realiseren.

De Nederlandse vleessector, op dit moment nog beschermd door importtarieven en tariefquota's, zou een toename van de concurrentie op de EU-markt ondervinden van aanbieders uit Mercosurlanden als de markttoegang wordt verruimd en de vleesindustrie van de Mercosurlanden haar vermogen om te voldoen aan de EU-standaarden op het gebied van voedselveiligheid verder versterkt.

S.2 Overige uitkomsten

Handelsstromen tussen de EU en Mercosur zijn zeer ongelijk, waardoor de belangen in de onderhandelingen om de toegang tot elkaars markten te verruimen asymmetrisch zijn. Export van de EU naar Mercosur bestaat vooral uit industriegoederen, terwijl de invoer van de EU uit Mercosur wordt gedomineerd door agrarische producten. De agrarische handelsrelaties van de EU en van Nederland zijn zeer scheef, waarbij de invoerwaarde die van de export ver overstijgt, wat aangeeft dat Mercosur een comparatief voordeel heeft in landbouwproducten.

Studies over de gevolgen van handelsliberalisatiescenario's komen over het algemeen allemaal tot de conclusie dat deze in termen van het Bruto Nationaal Product positief zijn, met hogere groeicijfers voor Mercosur dan voor de EU. De economische nadelen en de noodzakelijke aanpassingen als gevolg van een bilateraal akkoord tussen de EU en de landen van Mercosur zullen, wat de EU betreft, vooral voor rekening van de agrarische sector zijn. Binnen de agrarische sector zijn de gevolgen negatief voor de EU-producenten van vlees (met name rundvlees, maar ook pluimveevlees), suiker en zuivel, en sommige fruit en groente. De grootste exportvoordelen worden verwacht voor de EU's olijfoliesector.

De meeste studies over de gevolgen van handelsliberalisatie houden geen rekening met non-tarifaire belemmeringen, hoewel juist deze de handel tussen de EU en Mercosur sterk beïnvloeden. Dat blijkt bijvoorbeeld uit de lage score van Mercosurlanden op diverse ranglijsten ('open voor handel', 'gemak waarmee zaken kunnen worden gedaan', 'mondiale concurrentiekracht') en de hoge importkosten vanwege tijdrovende grensprocedures en de kwaliteit van infrastructuur en bij de in- en uitvoerafhandeling betrokken instituties.

Berekende handelskosten van NTM's van Mercosur zijn relatief hoog voor de EU-export van dranken, dierlijke producten en groente en fruit. Handelskosten voor exporteurs uit Mercosur die de Europese markt op willen zijn hoog voor fruit, zuivel, suiker en dranken. Deze berekeningen duiden erop dat NTM's een belangrijke factor zijn in de bilaterale handel tussen de EU en Mercosur.

Dat wordt ook duidelijk in de drie casestudies van dit rapport. De procedures rond een PRA (plantenziekterisicoanalyse) die voorafgaat aan de verlening van een exportvergunning nemen veel tijd in beslag en hinderen Nederlandse groente en fruit om op de Mercosurmarkt komen. Een vrijhandelsakkoord zou voor een veel soepeler verloop van de PRA-procedure moeten zorgen. Nederlandse exporteurs van peren zien kansen op de Braziliaanse markt nu Brazilië een exportcertificeringsprocedure voor dit product per 20 januari 2015 heeft goedgekeurd. Andere

fruithandelaren zijn actief op zoek naar mogelijkheden om fruit uit Mercosurlanden te importeren en de Europese en andere markten ermee te bedienen.

De export van zuivel vanuit de EU naar Mercosur wordt bemoeilijkt door de strenge etiketteringseisen en het Braziliaanse systeem van exportlijsten dat gepaard gaat met gedetailleerd fabrieksinspecties. De EU-/Nederlandse zuivelindustrie is van mening dat een handelsakkoord met Mercosur haar exportmogelijkheden vergroot naar deze groeiende markt voor zuivelproducten.

Brazilië en Argentinië zijn sterke spelers op de internationale vleesmarkten (met Uruguay en Paraguay met name sterk bij export van rundvlees), en concurrerend ten opzichte van EU-aanbieders op zowel prijs als kwaliteit. Een verdere vermindering van de Europese importtarieven en/of verruiming van de tariefquota resulteert in een toename van de concurrentie van aanbieders uit Mercosurlanden op de Europese markt. Dat zal in versterkte mate het geval zijn als de vleesindustrie in de Mercosurlanden in staat is te voldoen aan alle voedselveiligheidseisen van de EU.

S.3 Methode

Dit rapport is geschreven in opdracht van het Ministerie van Economische Zaken. De belangrijkste doelstelling van het rapport is om inzicht te geven in de gevolgen van een toekomstig handelsakkoord tussen de EU en de lidstaten van Mercosur voor een aantal agrarische sectoren en producten. De studie is gebaseerd op literatuuronderzoek en analyses van handels- en sectordata, en maakt gebruik van interviews met vertegenwoordigers van de sectoren om inzichten te krijgen in de belangrijkste knelpunten bij internationale handel en de visies van het bedrijfsleven over de offensieve en defensieve belangen van de sector.

1 Introduction

1.1 Background and aim of the study

The EU and Mercosur (the South American customs union comprising Argentina, Brazil, Paraguay, Uruguay, and since 2012 Venezuela) are considering to reignite the talks on a trade agreement between the two blocs.¹ Negotiations for a trade deal started in 1999 and were suspended in 2004 when the two sides were unable to reach an agreement regarding agricultural trade liberalisation. Negotiations were re-started in 2010 yet without any follow-up since the last negotiation round took place in October 2012. In spring 2014 Mercosur countries indicated to be ready for a next round in which they would like to exchange market access offers. Negotiators announced to plan for meetings to discuss new proposals by late autumn 2014. However, at the closing of this report in February 2015 no new round of negotiations has started.

This study provides insights into the current trade relations in agrifood products between the EU and Mercosur, and assesses the trade impacts of a comprehensive trade agreement between the two blocs. This study addresses the impacts of a trade agreement from the EU's export and import perspective, with specific attention to the impacts on the position of the Dutch agrifood sectors. The study offers an overview of quantitative effects of a trade agreement between the EU and Mercosur and uses case studies on fruit and vegetables, dairy and meat to evaluate offensive and defensive interests of the Dutch agrifood sector in these trade negotiations. The agrifood sector is an important industry for the EU in terms of added value and value of exports. Agriculture and its related processing and distribution sectors are a major component of each of the Mercosur economies in terms of income and employment. Both sides have complained about the many regulatory hurdles exporters are facing when entering each other's market. Both partners expect to gain from regulatory alignment. The Dutch agrifood sector, with its strong orientation on trade, may gain if current regulatory divergences between the EU and Mercosur member states are addressed. This study shows which non-tariff measures most significantly affect trade in agrifood commodities and products relevant to the Dutch agribusiness. At the same time, more open borders will also imply increased competition from suppliers from Mercosur on the Dutch and EU markets.

1.2 Approach and structure of the report

For analytical purposes the main research question of the possible impact of a EU Mercosur trade agreement in agricultural and food products is split into a subset of questions and tasks that are elaborated in the following sections of the report.

Chapter 2 presents current and past trade flows and market positions. This part of the analysis provides insights into and explanations of major trends and structural features of bilateral trade flows between the EU/the Netherlands and Mercosur as a bloc and its four individual members. We show the relative importance of agrifood products in the overall bilateral trade, indicating the interest each of the parties engaged in the negotiations may have in improving market access for agrifood products. In our description of trade flows, specific attention is given to agrifood products that are (or would be) of interest to the Netherlands in its bilateral trade relation with Mercosur countries.

Chapter 3 of the study focuses on current trade conditions. Conditions discussed are tariffs and non-tariff measures (NTMs), such as sanitary and phytosanitary (SPS) measures and Technical Barriers to

¹ Note that Venezuela officially joined Mercosur in July 2012 but does not join Mercosur's negotiations on a trade agreement with the EU. Therefore, this report considers Mercosur to encompass Argentina, Brazil, Paraguay and Uruguay.

Trade (TBT) measures, besides 'non-technical' NTMs such as licences and import quotas. In addition, with increasing trade linkages and globalisation, sustainability issues arise, which in the context of trade are defined as non-trade concerns. These concerns relate to environmental protection, and respect for labour conditions and animal welfare. Measures like the EU nitrate directive or the ban on the 'battery' cage for egg laying hens increase production costs at EU farm and supply chain level, and hence affect the industry's competitiveness and trade opportunities. A comparison of NTMs and measures reflecting non-trade concerns (such as animal welfare and farm labour circumstances) that affect the sector's competitive position is made between the EU and (major players in) Mercosur: their differences are specified to the extent possible and their divergences from international standards (e.g. in the Codex Alimentarius) are evaluated. Main sources of this analysis are EU and UN trade databases, plus WTO, FAO and EU/national documents that include tariffs and non-tariff measures. From this, the NTMs that affect trade will be listed, which are relevant to better understand the bilateral trade relations between the EU and Mercosur.

The two next chapters of the report discuss the possible effects of a trade agreement between Mercosur and the EU. We have no cause to add another scenario to those already analysed in the literature as there is currently no ongoing negotiation process that has led to a concrete proposal. Therefore, chapter 4 reviews the already significant body of literature that evaluates quantitatively the impacts of possible trade agreement scenarios. This review is expanded with an analysis of trade costs caused by customs procedures and other border administration, and NTMs like product standards and conformity assessment regulations.

In Chapter 5 we present three sector case studies; one on fruit and vegetables, dairy and meat. These case studies zoom in on the offensive and defensive interests of these sectors in the EU negotiations with Mercosur on a trade agreement. We highlight factors that currently hamper exports and estimate expected benefits of eliminating trade barriers. We then discuss defensive interests and indicate possible implications of further increasing market access to the EU.

Chapter 6 of the report summarises its main findings.

2 Trade flows and trade conditions

2.1 Introduction

Main features of EU-Mercosur bilateral trade flows are presented in Table 2.1. The figures show that exports from EU to Mercosur are largely industrial products whereas EU imports from Mercosur are dominated by agricultural products. These trade characteristics reflect the relative strengths of the economies at both sides. Given the agricultural competitiveness of Brazil and Argentina, the two dominant Mercosur partners, the EU is reluctant to open its market for agricultural products whereas Mercosur countries hesitate to open their economies for manufactured goods from abroad (Mercosur Press, 13 August 2014). These concerns at both sides constitute a main bottleneck to reaching an agreement about free(r) trade.

Table 2.1

Structure of EU27/28 export and import with Mercosur countries, 2013.

	Brazil		Paraguay		Uruguay		Argentina		M4 total	
	Export	Import	Export	Import	Export	Import	Export	Import	Export	Import
Values in billion euro (unless stated otherwise; m=million)										
Industrial products	36.1	17.6	470m	108m	1.5	0.6	9.4	2.2	47.4	20.5
Agricultural products 1	1.4	13.1	82m	1.0	0.2	0.7	0.2	5.2	1.9	20.0
Share in total exports or imports (%)										
Industrial products	96	57	90	9	91	46	98	30	96	51
Agricultural products	4	43	10	91	9	54	2	70	5	49

Source: Eurostat COMEXT. Note 1: The definition 'Agricultural products' used for this table includes the chapters 1-24 (excluding fish and fish products) of the Harmonised System (HS).

The following subsections present overall trends in and characteristics of the Dutch and EU bilateral agrifood trade relations with Mercosur countries. Note that the report shows only concise overviews or detailed trade figures for specific categories referring to recent years only. An earlier LEI report (Rutten *et al.*, 2011) presents broad overviews of bilateral trade data up to 2010.

2.2 Trends and importance

Figure 2.1 shows how extremely lopsided agricultural trade relations of the EU and the Netherlands are with the four Mercosur countries: EU and Dutch imports from Mercosur countries far exceed the value of exports to Mercosur. EU imports (blue bar in the figure) amounted to around €20bn in recent years, whereas EU exports (green bar) are increasing but remain just below €2bn in 2013.² Dutch exports to Mercosur are a modest €0.3bn in 2013, yet showing a tendency to grow quickly in recent years; the 2007-2011 average was €0.2bn. Dutch imports (pale grey line in the figure) show an increase over the whole period, from around €3bn in the early 2000s up to over €5.5bn in 2013.

² Of which €1.4bn to Brazil, €0.2bn to Argentina, €0.2bn to Uruguay and €0.1bn to Paraguay.

To put these figures in perspective: the value of EU27 trade with third countries is up to €150bn in exports and €138bn in imports. The share of trade with Mercosur in exports and imports equals 2.5% and 16% respectively. For the Netherlands, Mercosur is an even more important supplier of imports as 23% of Dutch imports from third countries has its origin in one of these Latin American countries. Dutch export to Mercosur is a modest 2.2% of its total agricultural export to third countries. These figures show the importance of Mercosur as the source of agrifood commodities and products for the EU market in general and for the Dutch agrifood sector in particular.

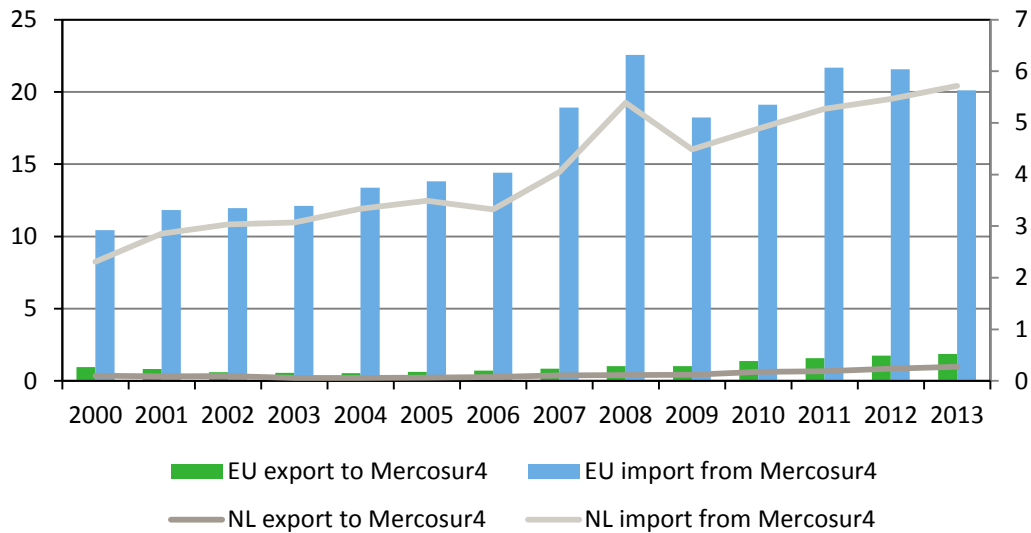


Figure 2.1 Bilateral agricultural trade of the EU and the Netherlands with Mercosur countries (total agricultural exports and imports in billion euros; EU trade figures on the left axis, Dutch trade figures on the right axis. Agricultural products include chapter HS01-24, excluding 03).

2.3 Structure of the Dutch bilateral agrifood trade flows with Mercosur

Figure 2.2 shows the structure of the Dutch exports to and imports from the Mercosur Four. The most important export products are preparations of vegetable and fruits (18% of total exports to Mercosur countries) and a category 'miscellaneous edible preparations' (even at 8-digit product detail - HS 21069098 - it is not clear what kind of products these are). Beverages, animal fodder (including preparations used in animal fodder) and oilseeds (seeds, fruits and spores for sowing) follow in importance. On the import side, animal fodder (oilcakes resulting from the extraction of soya-bean oil), oilseeds (soya beans) and meat (bovine meat, and meat and edible offal) are the most important product groups.

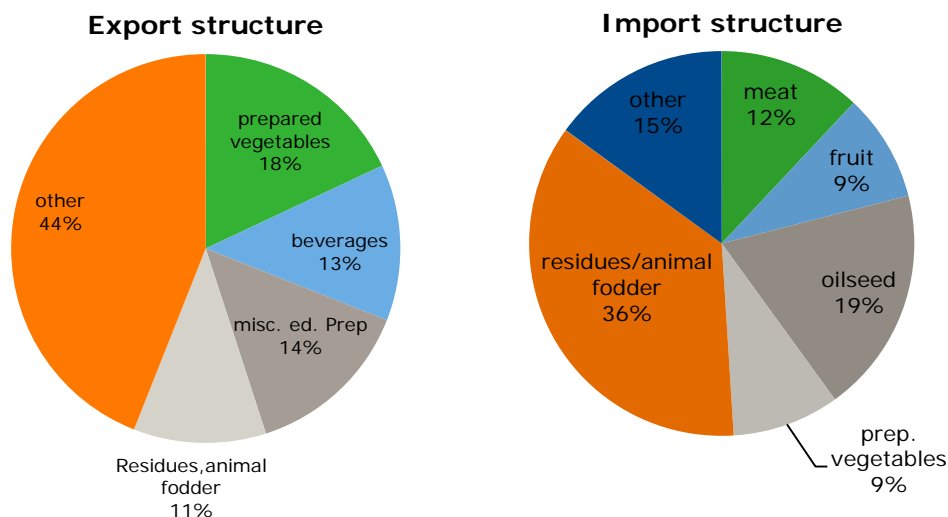


Figure 2.2 Structure of the Dutch agrifood exports (left) to and imports (right) from Mercosur-countries, 2013 (% of total Dutch agrifood export and import value)

A comparison of the current structure of Dutch exports to Mercosur with the set of exports of the Netherlands to third countries (i.e. exports to all countries outside the EU) allows us to indicate which products dominate exports in the exports to Mercosur and which have a (much) less strong position in the export flow to Mercosur (see Figure A1 in Appendix 1 to be compared with Figure 2.2). The products with a relatively small share in trade with Mercosur are dairy products, live trees and other plants, vegetables, and preparations of cereals. Much better represented are milling industry products, preparations of vegetables and fruit, the 'miscellaneous edible products' group and animal fodder. The reasons for these differences may be related to market demand and competitiveness (related to preferences, prices, quality), but might also be related to market access issues hindering products from entering the Mercosur market. Products listed as less well represented in exports with Mercosur will receive extra attention in our further analysis of barriers to trade.

2.4 Agrifood trade profiles of Mercosur countries

Before analysing trade conditions affecting the EU-Mercosur bilateral trade relations, this subsection first shows the trade profiles of Mercosur countries in agrifood products. Argentina, Brazil, Paraguay and Uruguay are net exporters of agricultural products, with Argentina and Brazil showing a rather large trade surplus (Figure 2.3 below). Exports of the four countries are particularly dominated by the soya complex (beans, oil and oilcake): about half of Argentina's and Brazil's exports is related to these products and for Paraguay it is even 60%. Uruguay's main export products are soya beans and bovine meat.³

Compared to their export flows, imports are quite modest for each of the four net exporting countries. The major items that are imported are fruits and cocoa products by Argentina, cereals and fish by Brazil, cereals and beverages by Paraguay and cereals and oilcakes by Uruguay. Imports are mainly sourced from the region: roughly half of Brazil's and Argentina's import is from neighbouring countries, whereas Paraguay and Uruguay import 60-70% from the two large neighbours Argentina and Brazil. Brazil's imports from the US and the EU are around 15% each (as share of total

³ Venezuela – not shown in the overviews here as it does not join the trade negotiations with the EU - is a net-importer of agrifood products, importing mainly live (bovine) animals, meat, cereals and oilcakes.

agricultural imports); Argentina's imports from the US and the EU are 8% and 13% respectively, while Paraguay and Uruguay import more than 3-5% from the US and the EU.

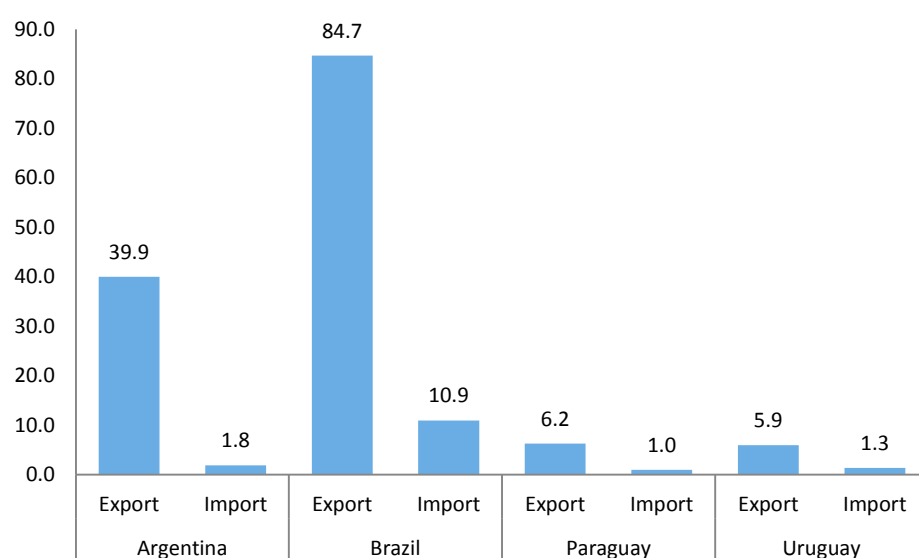


Figure 2.3 Total agrifood exports and imports of Mercosur countries (in billion USD, 2013). Agricultural products include chapter HS01-24, excluding 03). Source UNCOMTRADE.

3 Trade conditions in bilateral trade relations between the EU and Mercosur

3.1 Tariffs

Table 3.1 provides an overview of the protection rates of each of the four Mercosur countries and the EU. The duties referred to in the column 'Total' are an average of all products covered under HS chapter 01-97. The chapters 01-24 relate to 'Agriculture'. The tariff profiles presented in the table refer to schedules for 2012 (simple average) and 2011 (trade weighted average).

Table 3.1

Applied MFN tariff profiles of Mercosur countries and the EU: simple average (S) and trade weighted (TW) average (in %).

	Total		Agriculture		Non-agriculture	
	S	TW	S	TW	S	TW
Argentina	12.5	12.2	10.5	11.8	12.8	12.3
Brazil	13.5	10.2	10.1	12.0	14.1	10.1
Paraguay	10.1	6.6	10.0	12.7	10.2	6.1
Uruguay	10.5	8.5	9.8	11.3	10.6	8.1
EU	5.5	2.7	13.1	8.6	4.2	2.3

Source: WTO ITC UNCTAD, World tariff Profiles 2013.

Figures in Table 3.1 show that:

- Overall, Mercosur countries have higher tariffs than the EU (calculated as 'simple' and 'trade weighted' average, see column 'Total');
- EU tariffs on agricultural products are relatively high in simple average terms (column S under 'Agriculture'), but as the EU imports almost 50% of its agricultural imports duty-free (and each of the Mercosur countries imports only a very small percentage of their agricultural imports duty-free), the trade weighted average is below those of the Mercosur countries;
- EU tariffs on industrial goods are far below those in each Mercosur country.

Recent changes in EU's General System of Preferences (GSP) import policy have had consequences for the Mercosur countries Argentina, Brazil, Uruguay and Venezuela as they are classified as high middle-income countries. As of 1 January 2014, these countries will no longer benefit from any preferential regime upon importation into the EU. Paraguay is still eligible to GSP rates.

Table 3.2 presents the tariff structure of agricultural products in more detail for Brazil and the EU, allowing for a more specific reading of the current state of tariff protection on both sides. This overview indicates that:

- Average ad valorem tariffs applied (column 3) by Brazil are higher than EU tariffs except for HS 11 (milling industry products), HS 16 (meat preparations) HS 19 (preparations of vegetables and fruits) and HS24 (tobacco);
- Brazil is not applying any specific tariff (absolute amount per kg), while the EU does for many products, such as for meat (186 tariff lines out of the 248 are linked to a specific rate), dairy (161 tariff lines out of the 172 tariff lines) and many other products - see column 6 in the table).

The tariff profiles for agricultural products for Argentina and Brazil are almost equal (at 6 digit level) - differences are at the tariff line coffee (Argentina has higher tariffs) and preparations of cereal products (Argentina has lower tariffs than Brazil). Also, Argentina does not apply specific tariffs on agricultural products.

Table 3.2

Brazil and EU applied ad valorem tariffs imposed on agricultural products, average at 2-digit level, (2013 data).

HS code description	Brazil applied tariffs						EU applied tariffs					
	Number of TL	Number of AV duties	Average of AV Duties	Maximum AV Duty	Duty Free TL (%)	Number of Non-AV Duty	Number of TL	Number of AV duties	Average of AV Duties	Maximum AV Duty	Duty Free TL (%)	Number of Non-AV Duty
	(1)	(2)	(3)	(4)	(5)	(6)	(1)	(2)	(3)	(4)	(5)	(6)
01 Live animals	45	45	2.3	4	34.3	0	65	33	1.2	11.5	55.6	32
02 Meat	74	74	9.9	12	0.0	0	248	62	5.1	15.4	19.1	186
03 Fish	48	48	14.9	28	6.3	0	434	434	10.9	26	8.5	0
04 Dairy	28	28	6.4	8	17.3	0	172	11	5.8	17.3	5.7	161
05 Products of animal origin	23	23	5.9	10	17.2	0	20	20	0.1	5.1	98.3	0
06 Live trees etc.	93	93	9.2	35	13.2	0	55	55	7.1	12	13.3	0
07 Vegetables	74	74	10.2	55	0.0	0	122	94	8.5	15.2	14.4	28
08 Fruits	45	45	10.0	10	0.0	0	136	112	5.9	20.8	20.1	24
09 Coffee, tea etc.	41	41	5.1	12	43.6	0	50	50	2.3	12.5	68.2	0
10 Cereals	30	30	10.3	14	0.0	0	62	7	5.4	12.8	6.7	55
11 Milling industry	63	63	4.9	10	39.6	0	71	6	12.2	19.2	0.0	65
12 Oilseeds	23	23	7.5	14	0.0	0	74	71	1.2	8.3	73.1	3
13 Lacs, gums etc.	7	7	6.0	6	0.0	0	14	14	2.3	19.2	66.7	0
14 Vegetable plaiting materials	71	71	9.4	30	0.0	0	5	5	0.0	0	100	0
15 Fats and oils	15	15	16.0	16	0.0	0	128	117	5.4	16	21.5	11
16 Meat prep.	23	23	16.5	20	0.0	0	96	77	17.6	26	2.4	19
17 Sugars etc.	13	13	15.1	20	0.0	0	44	3	11.4	13.4	0.0	41
18 Cocoa and prep.	27	27	16.6	18	0.0	0	27	7	6.1	9.6	18.2	20
19 Prep of cereals	61	61	15.1	55	0.0	0	51	2	10.7	12.8	0.0	49
20 Prep. Veg. & fruits	39	39	15.3	18	0.0	0	304	229	17.5	33.6	0.7	75
21 Misc. ed. Prep.	31	31	19.4	27	3.8	0	39	23	9.3	14.7	9.4	16
22 Beverages	33	33	6.1	14	0.0	0	303	58	3.9	32	41.9	245
23 Residues etc.	19	19	17.1	20	0.0	0	64	32	0.8	12	68.8	32
24 Tobacco	45	45	2.3	4	34.3	0	21	10	44.7	74.9	0.0	11

Notes to the table:

- 1) Number of bound tariff lines in the HS code;
- 2) Number of national tariff lines in the HS code with ad valorem duty;
- 3) Average of all ad valorem duties in the HS code. Ad valorem equivalents for non-ad valorem duties are not included;
- 4) Maximum ad valorem duty in the HS code;
- 5) Percentage of duty free bound national tariff lines in the HS code;
- 6) Number of tariff lines in the HS code with non-ad valorem duty.

Source: WTO Tariff download facility at www.tariffdata.wto.org.

The true tariff average may be significantly higher than indicated by the figures in the table above because the EU charges specific tariffs on many tariff lines. In short, by looking at averages only, one easily underestimates the impact tariff elimination may have on trade flows at a more detailed level. Indeed, behind these averages, ad valorem duties for detailed products stretch over a wide range, and hence their elimination would have different impacts on import prices and a different impact on market access. Moreover, many products are subject to specific duties which can be significant in

terms of share of the ultimate import price.⁴ This means that assessments of impacts of tariff liberalisation on aggregated product levels are indicative at the most.

3.2 NTMs - what is at stake between the EU and Mercosur countries?

The overview of tariffs presented above masks the complexity of market access as there are numerous non-tariff measures (NTMs) that affect trade. NTMs can be manifest in sanitary and phytosanitary (SPS) measures and Technical Barriers to Trade (TBT) measures, besides 'non-technical' measures such as licences and import quotas.⁵ This subsection refers to and discusses some of the trade affecting measures that are classified as SPS and TBT measures that are most relevant to better understand the bilateral trade relations between the EU and the Mercosur. In presenting this, we take the EU perspective, arguing that the information more or less represents the perspective of the Netherlands, being part of the EU.

Van Wagenberg *et al.* (2012) compares standards imposed on agricultural production in the EU in *food safety* (e.g. hygiene requirements, constraints that limit the use of hormones, animal identification and registration requirements), *environment* (e.g. protection of groundwater, quality of water, air and soil), *animal welfare* (e.g. housing conditions), and *other nontrade concerns* (e.g. rules to prevent contagious animal and plant diseases, requirements on labour conditions) with similar standards imposed on domestic production in the selected countries. One of the selected countries is Brazil, which includes case studies on pork, poultry meat and cereals. The comparative analysis of EU standards in these areas shows several differences with those applied in Brazil, as is summarised in Table 3.3. below. The most significant differences appear to be in the area of food safety where standards divert (e.g. on which veterinary medicines and feedstuff additive are allowed). The EU GM approval procedures are not synchronised with Brazil's and standards are not enforced in Brazil. According to the authors also farm labour standards in Brazil deviate from international standards. In the field of animal welfare, animal health and plant health differences seem small and should not constitute substantial barriers to trade.

⁴ To lump different types of tariffs together (applied in many studies simulating the trade effect of import tariff reductions), specific tariffs are converted into ad valorem tariffs which means converting specific tariffs into an ad valorem equivalent by converting an absolute tax/duty per tonne or litre into a percentage of the value of the imported commodity. Specific duties are compared with unit values of imports within each tariff category. This is a common approach but prone to bias, among others due to which unit value is taken (a global or country specific one) and aggregation methods. See <http://capreform.eu/will-the-right-tariff-average-stand-up/> for a discussion. Accessed April 2014.

⁵ UNCTAD provides a comprehensive classification of NTMs that distinguishes up to 14 types, see UNCTAD 2012. An overview of main categories is presented in the Appendix to this report.

Table 3.3

Country comparison of standards and enforcement of standards between the EU and Brazil.

Standards related to	Comparison: standards applied in Brazil differ from EU standards by...
Food safety	<ul style="list-style-type: none"> • Types of permitted veterinary medicines. • Use of ractopamine as an additive in feedstuffs for pigs. • Approved genetically modified plants not (yet) approved in the EU. • Lack of enforcement of compliance with legislation concerning pesticide use, maintenance and sanitary issues in poultry and beef slaughterhouses and processing plants, and traceability of pigs.
Environment	<ul style="list-style-type: none"> • Less restrictive targeted measures to control pollution at source as part of a permit system for integrated production systems of poultry and pigs.
Animal welfare	<ul style="list-style-type: none"> • Due to the subtropical climate, basic welfare requirements are fulfilled on many farms even without legal standards. • Legislation provides basic welfare goals for farming, transport and slaughter. • Good Practice Recommendations have been or are being developed. • Group housing for pregnant sows is not required.
Animal health	<ul style="list-style-type: none"> • Overall equivalent guarantee of animal health as in the EU. • Great progress on traceability, but still enforcement issues due to insufficient inspection.
Plant health	<ul style="list-style-type: none"> • Overall equivalent guarantee of plant health as in the EU.
Farm labour	<ul style="list-style-type: none"> • Collective bargaining is not in line with ILO Convention. • The working day and week are longer than in the EU. • Forced and slave labour remain, despite efforts to improve. • Enforcement of labour standards is weak, but great progress is being made in inspections and effective penalties.

Source: Van Wagenberg *et al.* (2012).

Below we use information from the EU Market Access Database (MADB) to present SPS and TBT issues relevant to assess effects of a possible EU-Mercosur FTA. The MADB reports on the SPS and TBT issues in bilateral trade with third countries that are unresolved and thus hamper trade from the EU perspective. The overall aim of the MADB is to bring more transparency in trade issues facing EU exporters and to facilitate the efforts to resolve them.

The MADB consists of two datasets: the trade barrier database and the SPS database.⁶ The trade barrier database defines seven categories of measures that relate to traditional trade policy instruments (tariffs and duties, trade defence instruments), other export-related measures (investment-related barriers, intellectual property rights, service-related and other measures) and NTMs. In both the trade barrier database and the SPS database, information is given according to type of measure, product and export destination.

Several limitations of the MADB need to be considered. The database suffers selection bias in the reporting of the trade barriers (either by companies, their representative organisations or by government officials). Only reported trade barriers are included, listed after an evaluation by the EC. The MADB does not provide information on the importance of the trade barrier reported since information on the trade volume and/or value affected is not available. However, the information is useful to point out trade barriers relevant for EU exporters, indicating the difficulties that EU exporters

⁶ While overlapping to a certain extent, the trade barrier database and the SPS database report different types of information on NTMs from the EU exporters' perspective. The trade barrier database collects complaints that individual EU exporters, groups or associations of producers or the EU member states report to the EC. Note that the complaints must clearly demonstrate evidence that the respective measure does not conform to international rules and causes commercial harm to European operations, either within the EU or in third countries. After an investigation by the EC, relevant measures are listed in the trade barrier database. In contrast, the SPS database is not based on individual complaints. The SPS database contains information reported by the agrifood industry, the EU member states, services and delegations of the EC, and also covers relevant SPS notifications from the WTO.

have been facing when supplying foreign markets. Table 3.4 presents an overview of SPS measures imposed by Mercosur countries on EU exports in the area of agrifood.

Table 3.4

Overview of NTM measures in the area of SPS imposed by Mercosur countries on EU exports, with barrier status 'ongoing'.

Title and barrier ID	Product	Measure/complaint	Last update/check
Argentina - Meat and meat products of ruminant (040010)	Meat of bovine animals, frozen (HS 0202)	Import restrictions on meat and meat products of ruminant origin because of BSE/TSE. This is against OIE recommendations	Creation date: 30/04/2004; Last update: 04/06/2012
Brazil - SPS - Partial alignment of BSE rules for the import of bovines and their products (115401)		Brazil imposes conditions for deboned beef, does not allow the imports of bone-in-meat, lists many materials as 'specific risk materials' (SRMs), and has set requirements for the approval of a specific system of removal of SRMs.	Creation date: 10/05/2011 Last update: 08/05/2014
Brazil - SPS - Plants and plant products subject to PRAs (145477)	Plants and plant products	Pest Risk Analyses (PRA) are the main phytosanitary pre-requisite of MAPA to authorise imports into Brazil of plants and their products, and have been subject to serious delays - 10 years in some cases.	Creation date: 08/05/2014; Last update: 01/12/2014
Brazil - SPS - Verifications, labelling, pre-listing, regionalisation (095219)	Agriculture	The backlog of evaluations of the inspection and certification systems of EU Member States by the relevant services of the Ministry of Agriculture, Livestock and Food Supply of Brazil (DIPOA/MAPA) is a serious obstacle to trade. Many export applications have been submitted by EU Member States to MAPA from 3 to 7 years ago, and some of them even longer (up to 10 years). The European Commission has called Brazil to improve the level of predictability, to perform more visits to EU Member States and to shorten the delays between the visits and opening of markets	Creation date: 01/04/2009; last update: 04/12/2014
Uruguay- Live ruminants, their products and derivatives (040084)	Live bovine animals (HS 0102)	The ban on beef due to Bovine Spongiform encephalopathy (BSE) is still in place.	Creation date: 18/05/20104; last update: 19/12/2014
Uruguay-matured pork meat products (040131)	Meat of swine, fresh, chilled or frozen (HS 0203)	Ban on Italian pork meat products with less than 400 days of maturation due to animal health reasons (swine vesicular disease, classic swine fever)	Creation date: 29/09/2004; Last update 19/12/2014

Source: EU Market Access Database (MADB): trade barriers and SPS issues, retrieved on 04/02/2015 from <http://madb.europa.eu/madb/indexPubli.htm>

Besides SPS type of measures reported in the table above, several other technical barriers to trade and non-technical NTMs imposed by the four Mercosur countries restrict food exports from the EU. To date, measures that have an impact on bilateral trade in agrifood products with all four countries are 'registration, documentation and custom procedures', 'enforcement problems on IPR' and the 'lack of protection of Geographical Indications (GI)'. With respect to the export of food, the first and the third measures mentioned are the most relevant and merit some more clarification.

With respect to 'registration, documentation and customs procedures', the EU exporters have indicated trade with Argentina is being affected by the country's 'sworn prior importer declarations'.

The barrier fiche in the EU's MADB reports the following:

'Since 2012 importers have to submit for all envisaged imports a sworn declaration with product information to the Argentina's taxation and customs authority AFIP. Some State agencies have access to this declaration and can raise objections. Importers need an approved import declaration to make the purchasing order and to transfer abroad foreign currency for the payment. The criteria for approval/rejection of the sworn declaration are not legally defined. These importer sworn declarations are part of a WTO dispute settlement case (DS438) since 2012. In order to avoid any interference with the on-going legal WTO process, the situation is described as known before the start of the WTO dispute settlement case' (MADB website, retrieved 05/09/2014).

The lack of clear criteria for approval of the requested declaration suggests this measure can be applied discretionally and can be easily used to prevent entry of foreign goods in order to defend domestic industry's interests.⁷

With regard to the 'lack of GI protection', the MADB barrier fiche reports that

'Argentina has in place a legal framework in line with TRIPS including a sui generis protection by means of a national register that in principle is also available to foreign Geographic Indications (GI) holders. So far no EU GIs have been registered and therefore they lack legal means to be defended in Argentina. One of the reasons is that GIs denominations considered as 'generic' names cannot be registered and many European GIs are considered in Argentina as 'generic' and mentioned as such in the local food codex 'Codigo Alimentario'. There are concerns on misappropriation cases of certain European GI names.' (MADB website, retrieved 05/09/2014).

The lack of legal means to defend the names of EU quality agricultural products and foodstuffs holds for wine, spirits and a whole range of other food products such as cheeses, ham, sausages, olives and olive oils.

The EU has marked a number of complaints of exporters as key priorities. In its bilateral trade relations with Argentina, out of the nine complaints, eight are marked as key, whereas 11 of the 15 complaints with regard to Brazil are prioritised. None of the trade barrier issues with Paraguay and Uruguay have the status of key priority.

⁷ In January 2015 the WTO's highest court confirmed that various 'trade restricted requirements' among which the advanced sworn import declaration are in violation of global trade rules. In the light of this ruling, Argentina will 'work to establish terms of bilateral negotiations with the complainants' one of them being the EU (Bridges Weekly, 2015:8). The WTO appellate body rule against Argentina may induce modifications in Argentina's trade administration policies, although quick changes may not be expected seen the country's response defending the declaration as a 'basic element that helps customs offices to guarantee protection of the domestic market' (*ibid*).

4 Trade liberalisation scenario analyses: a review of literature

4.1 Estimated trade and welfare gains of EU-Mercosur trade agreement scenarios

A significant body of literature evaluates quantitatively the impacts of possible EU-Mercosur trade agreement scenarios on trade and welfare. Studies based on a CGE economic model (e.g. Kirkpatrick and George, 2009; Copenhagen Economics, 2011; Burrell *et al.*, 2011; Philippides *et al.*, 2014) generally show similar results of positive economic impacts on both sides.⁸ In terms of GDP growth, the estimates are more positive for Mercosur than for the EU because the EU's economy is larger and Mercosur is a less important trade partner for the EU than the other way around. For the EU, the manufacturing and services sectors are predicted to gain relative to agriculture. The effect on EU agriculture is negative in the short term. However, in the long term, as sectorial resources shift to more efficient allocations, the welfare losses in agriculture are offset by the gains in other sectors of the economy. For the Mercosur countries, the sectorial changes indicated by the model simulations are generally in the opposite direction to those in the EU. This means that the agricultural and processed foods sectors in Mercosur countries are expected to benefit from the increased export opportunities in the EU market, whereas for the manufacturing sector, the increased exposure to European competition is expected to necessitate a period of adjustment for Mercosur producers.

In conclusion, the model projections show that the economic losses and the adjustment pressures arising from a bilateral trade agreement between the EU and the countries of Mercosur would, as far as the EU is concerned, fall very heavily on the agricultural sector. Next, within the agricultural sector, effects differ between subsectors, with winners and losers. Studies showing these more sector detailed effects, indicate that EU producers of meat (particularly beef, but also poultry), sugar and dairy will face more competition on EU markets from Mercosur (Burrell *et al.*, 2011; Philippides *et al.*, 2014). As a result the share in intra-EU trade will decline and EU production of the agricultural commodities will be reduced. EU imports of vegetables and fruit from Mercosur will also be higher with trade concessions, dominated by the increase for citrus and the categories 'other fruits' and 'other vegetables'. The most significant export gains are estimated for EU's olive and olive oil sector.

4.2 Trade friction costs and 'behind-the-border' measures as barriers to trade

Whereas Burrell *et al.* (2011) and Philippides *et al.* (2014) only consider tariff rates or the reduction of tariff rates in their scenarios, Copenhagen Economics (2011) stresses that non-tariff barriers are reducing opportunities to trade between the EU and Mercosur countries importantly. Examples of such non-tariff barriers are cumbersome customs procedures or trade facilitation interventions (largely administrative trade barriers), and non-tariff measures (NTMs), such as product standards, conformity assessment regulations and subsidies ('behind-the-border' measures). Below, we first discuss trade costs estimates arising from customs procedures applied by Mercosur countries, and then evaluate the impacts of NTMs on agricultural trade with Mercosur in the next subsection.

⁸ In Rutten *et al.* (2011) literature on this topic published before 2011 is concisely summarised. The European Commission (2011) also did an evaluation of the impacts of 2008 offers on farm level.

4.2.1 Trade costs

Table 4.1 presents the same indices Copenhagen Economics uses to indicate openness to trade and investments, with updated figures to show the Mercosur countries' most recent rankings. The Trade Enabling Index provides an assessment of a country's obstacles to trade.⁹ In 2014, the Mercosur countries are found in the lower part of the list, ranking the most open country first, except for Uruguay, which scores much higher in the list of 138 countries.¹⁰ The Ease of Doing Business Index reflects whether the regulatory environment in a country is conducive to starting and operating a local firm. Out of 189 countries, ranking the most business friendly country first, Argentina and Brazil ranked 124 and 120 respectively, with Paraguay and Uruguay around place 90 (in 2014). The Global Competitiveness Index summarises a set of institutions, policies and factors that determine the level of productivity of a country and, consequently, the return obtained by investments. Here, Brazil scores relatively well in 2014, contrary to Argentina and Paraguay which rank 104 and 120 respectively out of 144 (where the most competitive country is ranked first). The overall picture that emerges is that Mercosur is not very open to trade and investments, since it ranks poorly in these overall indices. Overall openness to trade and investment in Mercosur falls far behind other emerging economies like China and South Africa in most cases and is comparable to Russia and India (see Table 4.1).

Table 4.1

Overall indices of openness to trade and investments.

	Trade enabling index		Ease of doing business index		Global competitiveness index	
	2014	2010	2014	2010	2014	2010
Argentina	95	95	124	115	104	87
Brazil	86	87	120	127	57	58
Paraguay	113	103	92	106	120	120
Uruguay	60	50	82	125	80	64
Russia	105	114	62	123	53	63
India	96	84	142	134	71	51
China	54	48	90	79	28	27
South Africa	59	72	43	34	56	54

Source: WEF, The Global Enabling Trade Report (2010, 2014); WEF, The Global Competitiveness Report (2010, 2014) and World Bank Ease of Doing Business (2010, 2014).

The reduction of costs in trade facilitation¹¹ generally plays an important role in estimated welfare gains of a trade agreement, especially when longer term dynamic effects of the implementation of more efficient border measures are taken into account (e.g. George *et al.*, 2009). The Mercosur countries will be able to capture these gains because they have made much less progress than the EU

⁹ The index framework captures the various dimensions of enabling trade, breaking them into four overall issue areas, which are *Market access* (on the extent and complexity of a country's tariff regime), *Border administration* (about quality, transparency and efficiency of border administration), *Infrastructure* (availability and quality of transport infrastructure, associated services, and communication infrastructure, necessary to facilitate the movement of goods within the country and across the border) and *Operating environment* (measuring the quality of key institutional factors impacting the business of importers and exporters active in a country).

¹⁰ For comparison: The Netherlands ranks number 3, whereas 6 EU countries are in the top 10, and 22 EU member states ranking in the top 50 of this index.

¹¹ Trade facilitation refers to policies and measures aimed at easing trade costs by improving efficiency at each stage of the international trade chain. According to the WTO definition, trade facilitation is the 'simplification of trade procedures', understood as the 'activities, practices and formalities involved in collecting, presenting, communicating and processing data required for the movement of goods in international trade.' The OECD follows the definition in its work on trade facilitation (OECD, 2014). Note also that the Trade Enabling Index, discussed above and explained in footnote 7, covers the aspects of border procedures and administration, infrastructure and the quality of institutions dealing with imports and exports (operating institutions).

in implementing efficient border procedures (e.g. reducing time spent on and number of border documents, improving logistics at ports). The EU will also benefit economically, mainly through improved performance of specific export industries and reduced costs of its own border procedures. The long term gain will, however, be smaller than in Mercosur, since EU-Mercosur trade is a smaller proportion of EU's total trade.

To illustrate the importance of reducing the costs of trade facilitation for agricultural goods, Liapis (2011) finds a statistically significant and negative association between time delays and agricultural trade, suggesting that a 10% reduction in export time is associated with a 9.6% increase in overall bilateral agricultural trade and a 17% increase in traded processed goods for the given country sample. A 10% improvement in import times, on the other hand, is associated with a 22% increase for overall agricultural trade. In a literature review of empirical studies on trade facilitation including a specific analysis for agricultural goods, OECD (2014) refers to a case study of an agro-business firm in Brazil that identified inadequate transport infrastructure as an important source of delays and increased operational costs, with delays at ports costing as much as USD25,000 per vessel per day. Improved infrastructure, hence, would significantly reduce trade costs.

Table 4.2. below shows that it is rather costly to import goods in Mercosur countries. The average cost of importing a container in Argentina, Brazil and Paraguay is over USD2,200, much higher than in India and China. Custom procedures take quite some time, especially in Argentina and Paraguay, whereas importing to Brazil and Uruguay takes less than the average number of days it takes to import to the other BRICs.

Table 4.2

Overall indices of openness to trade and investments

	Cost to import (USD per container)	Documents to import (number)	Time to import (days)
Argentina	2,260	8	30
Brazil	2,215	8	17
Paraguay	2,275	9	30
Uruguay	1,125	7	16
Russia	2,810	10	21
India	1,250	11	20
China	625	5	24
South Africa	1,980	6	21

WEF, Global Enabling Trade Report, 2014.

4.2.2 Non-tariff measures and agricultural trade

Administrative trade barriers are only part of the broad range of non-tariff barriers, which also include tariff rate quotas, import bans, product quality and food safety standards, licensing and many other regulatory measures (see for a categorisation of NTMs, UNCTAD, 2010. In Appendix 2, main headings of the NTM categories are summarised). Studies that propose to assess the impacts of a wider policy environment quantitatively use the 'price gap' (between domestic and world price) or 'tariff equivalent' methods which seek to estimate the level of ad valorem tariff that would have an equally trade-restricting effect of the NTM in question. Alternatively, studies estimate 'quantity gaps' i.e. actual trade flows in the presence of the NTM less than expected trade flows (estimated by a statistical model of trade, such as a gravity model).

In general, impacts of non-tariff measures on agricultural trade are considered to be serious (e.g. OECD, 2014). However, quantification of the impact of, for instance, SPS and TBT measures on trade and, hence, the estimation of the reduction of the costs to trade of such measures, is extremely complex, and appears to vary significantly across agricultural sectors and (specific) products.

Quantitative evaluations of NTMs' impacts on overall trade costs of agricultural products show that agricultural trade is significantly more restricted than manufacturing trade which may be attributed to the perishability and higher level of regulations for food safety or food security reasons (Hoekman and Nicita, 2008, and Duval *et al.*, 2012, in OECD, 2014). Nicita and Gourdon (2013) estimate that trade of more than 60% of food-related products are affected by at least one form of SPS measure.¹²

There are only few studies that report quantitative estimates of impacts of NTMs on agrifood trade of Mercosur. Philippidis and Sanjuán (2007) calculate trade cost equivalent of Mercosur NTMs following the method of estimating tariff equivalents of NTMs and using a gravity model specification on EU-Mercosur trade in 16 sectors. Tariff costs equivalents (TCEs) express the cost impact of cross-border trade of NTMs. The study finds that NTMs are particularly damaging to EU exports of beverages and tobacco to Mercosur where the NTMs pose an additional cost for EU exporters equal to 160%. NTMs also play an important role in EU exports of livestock (113%), vegetables, fruits and nuts (79%), other food products (63%) and dairy (45%) (see Figure 4.1). Note that trade costs in the bilateral trade of Mercosur countries importing from the Rest of America is higher in most cases than Mercosur importing from the EU. Trade costs faced by Mercosur exporters at the EU border (EU15/Merc in the figure) appear to be higher than the other way around for vegetables, dairy, sugar and beverages & tobacco. These figures indicate that trade costs are an important factor in bilateral trade between the EU and Mercosur, as well as in Mercosur's trade with other countries at the American continent.

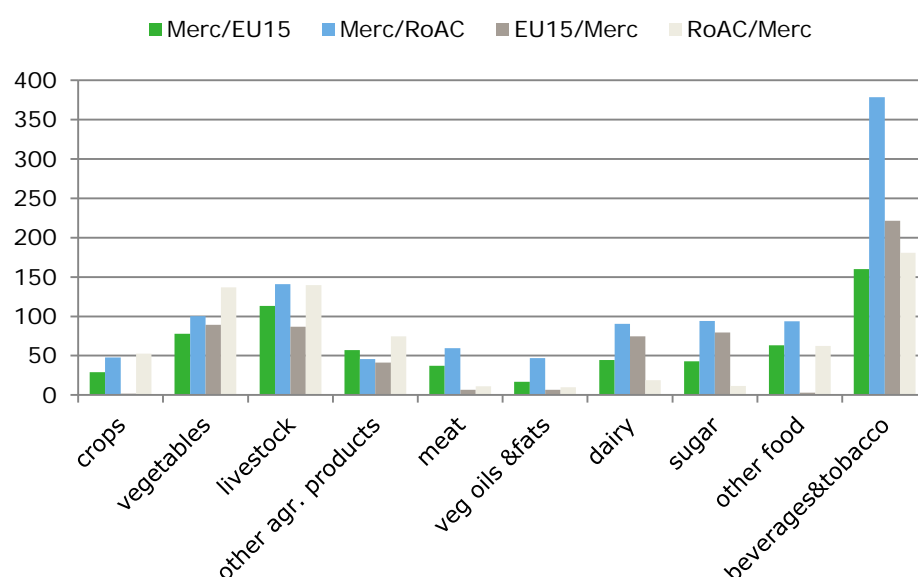


Figure 4.1 NTM trade cost tariff equivalents (tariff as % of the value of the product) in bilateral trade. Source: Philippides and Sanjuan, 2007 (only results for agricultural sectors are presented). Notes: first region mentioned is the importer, second region is the exporting region: Merc/EU = Mercosur is importing from the EU; RoAC = rest of America.

UNESCAP (2012) has developed an extensive database of agricultural trade related costs, measuring among others transportation costs, policy barriers (tariffs and non-tariff measures), information costs and contract enforcement costs. Bringing all these cost items together under one heading, UNESCAP estimates the agricultural trade costs between the EU and Mercosur to be as high as a tariff equivalent of 259% (average 2007-2009). If the costs of tariffs would be excluded, the agricultural (non-tariff)

¹² However, the expected impact of standards on agricultural trade is not necessarily clear. On the one hand compliance with standards may lead to increased production costs which reduce trade, while on the other, standards may also increase information on food safety and product quality which can lead to increased consumer confidence, reduce transaction costs and thus facilitate trade.

trade costs between the EU and Mercosur would be 239%, implying that non-tariff trade costs are by far more important than tariffs. A further specification of the determinants of the non-tariff trade costs goes as far as indicating the importance of distance, infrastructure or access to information (ICT) whereas the factor of 'non-tariff measures' is not itemised.

The latter makes it difficult to move from estimates of tariff equivalents or trade costs to recommendations to policymakers. In reality, trade is affected by a set of non-tariff measures, such as for instance by a technical standard, a phytosanitary limitation and slow customs procedures. When there are multiple NTMs in place, it is natural for policymakers to want to know which are more restrictive or more important, in order to prioritise policy efforts and target interventions to the most severe problems first. However, price gaps nor quantity gaps in the presence of multiple NTMs can be specified into individual and specific impacts of a measure on the distortion: there is only one price and/or quantity gap and further information to identify these gaps lacks.

In an effort to tackle this problem, Ferrantino (2012) introduces a method to specify NTMs by studying goods as they move through supply chains. The idea is to follow a typical exported good from its location of production (ex-farm or ex-factory) through multiple steps in the process of shipping and delivery. At each stage in the process the price of the good increases, as additional costs are imposed. As a result, costs associated with each move through the supply chain can be separated into their constituent parts. Ferrantino states that

'With a supply-chain decomposition, it would be in principle possible to identify where the greatest rents and inefficiencies are, and to identify policy priorities which are most likely to expand trade and benefit both producers and consumers of traded goods' (2012: 7).

Typically, Ferrantino's approach could be used in a case study following a particular good through various stages of the supply chain, but this approach also assumes that mark-ups along the supply chain can be attributed to tariffs, NTMs and other natural barriers such as different languages, information costs and/or transaction costs associated with using different currencies, all step-specific in the supply chain.

In the following chapter we present a number of case studies of Dutch supply chains that are of particular interest in EU-Mercosur trade negotiations. Unfortunately, we are unable to follow Ferrantino's approach in these case studies due to a lack of quantitative information. However, the case studies are conducted along Ferrantino's line of thought by pointing out the most important non-tariff measures identified in different stages of the supply chain in question.

5 Trade effects of harmonising non-tariff measures: case studies

5.1 Introduction

This chapter presents three sector case studies on Dutch agrifood commodities that are important in terms of their external market orientation: fruit and vegetables, dairy and meat. These case studies zoom in on the offensive and defensive interest of these sectors in the negotiations with Mercosur on a trade agreement. Issues that currently hamper exports are highlighted and expected benefits of eliminating trade barriers are estimated. Defensive interests are discussed and possible implications of further increasing market access to the EU are indicated.

5.2 Case study on fruit and vegetables

5.2.1 Obstacles in bilateral trade

Up to now there has been little trade by Dutch exporters of fruit and vegetables with Mercosur countries. Export figures indicate that total value adds up to no more than €13m in recent years, almost all of which consist of exports of onions and seed potatoes (see Table 5.1).

The major reason Dutch companies have had little success entering markets in Latin America is the difficulty to get in.¹³ Major LA countries like Brazil, Argentina and Mexico require a pest risk analysis (PRA)¹⁴, a thorough procedure focusing on phytosanitary standards and requirements set and applied by the countries concerned. With a PRA, importing countries aim to rule out the import of plant diseases and to secure food safety at their domestic market. The PRA procedure can take quite some time. For example, several years ago, the Dutch authorities decided to select pears for starting a PRA procedure, as two Dutch exporters of pears indicated to have been approached by potential clients in Brazil. Market access for pears to Brazil has been approved in January 2015, three years after the PRA process started.¹⁵

Brazil is very concerned about fruit moth and requests guarantees that all fruit is absolutely free of fruit moth. This requires huge efforts of growers' management skills. Dutch authorities have agreed to apply a protocol that should prevent exports of pears that cannot comply with Brazil's stringent requests. One element in the protocol is physical inspections at the growers' plot or at the export customs clearance. This is, however, labour intensive and hence cost increasing.

Currently, some South-European countries do have access to Brazil to export fruit and vegetables. Yet, Brazil treats every EU member state separately implying that each member state has to apply for market access for its own domestic industry. Moreover, the PRA procedure can only be applied to one product at the time, obliging the applicant to make a careful choice for which product ones want to start the procedure.

¹³ This part of this subsection builds on an interview with FrugiVenta's Inge Ribbens (30 October 2014).

¹⁴ Pest risk analysis (PRA) is the process used by a national plant protection organization (NPPO) as the technical justification for phytosanitary measures. PRA is defined by the International Plant Protection Convention (IPPC) as 'the process of evaluating biological or other scientific and economic evidence to determine whether a pest should be regulated and the strength of any phytosanitary measures to be taken against it.' The process requires a risk assessment to characterize the risk and risk management to determine appropriate measures.

¹⁵ The Normative Instruction no 2 of 16 January 2015 has been made public in the Dario Oficial on 20 January 2015. The negotiation with Mexico are even more tough than with Brazil, as it has been over six years since the Netherlands applied for access to Mexico for Dutch pears, and this is still under negotiation.

Although fruit and vegetable export to the Latin American continent is still very small, these markets are increasingly on the radar of Dutch fruit and vegetable exporters. Exporters are continuously looking for opportunities, but the Russian sanctions introduced in August 2014 have emphasised the necessity to seek alternative markets. Currently, options are explored to export apples and pears to Columbia and onions to Costa Rica. But the sector is also looking for other far distance markets with good prospects, such as for instance China. In 2014 market access for Dutch pears to China has been arranged (after five years of negotiations), while talks on market access for peppers only started (Chinese authorities also consider only one product at the same time when negotiation market access). In case market access talks with China (or other trade partners) will develop more successful than with Mercosur, interests of traders in the latter may fade.

An FTA with Mercosur should lead to a smoother process of the procedures arranging market access. For fruit and vegetables this is the PRA procedure. The question is whether an FTA is a condition for a shorter lead time of PRAs; for the time being, pushing for more rapid consideration of applications on bilateral terms seems to be a more effective way than waiting for an FTA, something which is not expected to be concluded shortly.

5.2.2 Bilateral trade and Mercosur's overall trade in fruit and vegetables

Table 5.1 below presents figures on fruit and vegetable exports of the EU and the Netherlands to each of the Mercosur countries. The export values are particularly low, except for exports of fruits (in particular apples [HS0808] and apricots [HS0809]) from the EU that amounted to €110m in 2012 and 2013. The Dutch share in total EU fruit exports is negligible, while its share is significant in EU's total export of vegetables to the four Mercosur countries.

Table 5.1

EU27 and the Netherlands' exports of fruit and vegetables to Mercosur countries, 2012 and 2013, value in €1,000.

	Fresh vegetables (HS07)				Fresh Fruits (HS08)			
	2012		2013		2012		2013	
	EU	NL	EU	NL	EU	NL	EU	NL
Argentina	533	141	671	220	3,494	142	3,624	20
Brazil	33,359	8,866	37,756	13,259	107,200	236	105,023	175
Paraguay	1	0	19	0	8	16	35	0
Uruguay	1,260	408	2,279	824	1,224	0	1,372	2
Total	35,153	9,415	40,725	14,303	111,926	394	110,054	197

Source: Eurostat.

Table 5.2 below shows exports and imports of fruit and vegetable products by Mercosur countries. These figures indicate that Argentina is a net exporter of vegetables whereas Brazil is an even greater net-importer of these products, especially of onions and dried vegetables, two vegetables Argentina exports to a great extent. No surprise that these two products are traded between the two countries. The two smaller countries Paraguay and Uruguay are also net importers of vegetables. In case of fruits, Argentina is - again - the largest net-exporter within the Mercosur market, with Brazil's trade balance showing a small export surplus. The most significant fruit exports are citrus fruit, apples/pears for Argentina, nuts, dates etc., and melons for Brazil and citrus fruit for Uruguay. Argentina's major import item is bananas, whereas Brazil imports (largely) apples/pears, grapes and other nuts. In the category of prepared and processed vegetables, fruits, nuts or other parts of plants (HS20 - at the bottom of the table), both Argentina and Brazil are significant (net)exporters. Major export products of Argentina are groundnuts/peanuts and (grape) juices, whereas Brazil major export item in this category is orange juice. Brazil also imports prepared/preserved potatoes and olives, amounting together more than USD0.5bn in 2013.

Table 5.2

Total export and import of Vegetables and Fruits (fresh and prepared) by Mercosur countries, 2013 (in USDm).

HS code and abridged product name	Argentina		Brazil		Paraguay		Uruguay	
	Export	Import	Export	Import	Export	Import	Export	Import
0701 Potatoes, fresh	11.3	0.2	0.9	12.7	0.0	2.2	0.1	4.1
0702 Tomatoes, fresh	1.5	0.5	0.5	0.6	0.0	1.7	0.0	0.2
0703 Onions, shallots, etc.	226.0	0.5	1.2	328.4	0.0	5.2	0.2	3.7
0704 Cabbages, etc.	0.0	0.0	0.0	0.0	0.0	0.3	0.0	0.0
0705 Lettuce	0.2	0.0	0.0	0.1	0.0	0.1	0.0	0.1
0706 Carrots, etc.	0.3	0.0	0.0	0.7	0.0	0.3	0.0	0.2
0707 Cucumbers and gherkins, fresh or chilled.	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0
0708 Leguminous vegetables	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
0709 Other vegetables, fresh or chilled.	6.9	2.2	1.3	4.8	0.0	0.7	0.1	1.9
0710 Vegetables, frozen.	0.7	2.3	0.0	23.3	0.0	0.7	0.1	2.9
0711 Vegetables provisionally preserved	3.3	0.1	1.7	30.1	0.0	0.0	0.0	0.0
0712 Dried vegetables	4.4	7.8	1.2	53.4	0.2	0.3	0.0	3.1
0713 Dried leguminous vegetables,.	197.1	3.5	24.6	342.5	0.5	0.2	0.0	4.7
0714 Manioc, arrowroot, etc.,	0.1	0.0	5.4	1.0	1.1	0.0	0.0	0.9
07 Edible vegetables and certain roots and tubers	451.9	17.0	36.8	797.6	1.8	11.8	0.5	21.7
0801 Coconuts, Brazil nuts and cashew nuts	0.0	6.6	156.1	47.8	0.0	0.3	0.1	2.4
0802 Other nuts.	11.9	17.8	6.0	100.1	0.2	0.4	0.1	3.2
0803 Bananas	0.0	194.6	35.6	0.0	4.6	0.0	0.0	20.4
0804 Dates, figs, etc.	1.2	28.5	164.1	3.2	0.8	0.2	0.0	1.5
0805 Citrus fruit, fresh or dried	335.7	2.4	84.6	23.9	0.4	3.2	79.6	1.1
0806 Grapes, fresh or dried	102.8	0.3	103.0	116.6	0.0	0.7	0.0	2.1
0807 Melons and papayas	0.0	0.3	205.9	0.0	0.0	0.3	0.0	0.4
0808 Apples, pears, quinces	579.5	0.5	62.9	291.8	0.0	2.9	1.1	2.6
0809 Apricots, cherries, etc.	17.8	0.1	0.0	94.3	0.0	0.3	0.1	1.2
0810 Other fruit, fresh	87.4	15.6	1.4	43.1	0.0	0.1	16.3	2.5
0811 Fruit and nuts, uncooked	17.3	2.6	10.9	19.0	0.0	0.1	0.2	0.7
0812 Fruit and nuts, provisionally preserved	0.3	0.6	1.2	1.0	0.0	0.0	0.0	0.0
0813 Fruit, dried, other than that of headings 08.01-.06	94.2	0.6	4.1	48.8	0.0	0.1	0.0	1.0
0814 Peel of citrus fruit etc.	0.0	0.1	1.2	0.1	1.9	0.0	0.2	0.0
08 Edible fruit and nuts; peel of citrus fruit or melons	1248.2	270.6	837.1	789.6	7.9	8.6	97.9	39.1
20 Preparations of vegetables, fruits, nuts, etc.	1286.7	117.5	2544.2	655.1	8.5	42.4	8.1	89.4

Source: UNCOMTRADE.

5.2.3 Trade opportunities for Dutch traders in fruits and vegetables

Import tariffs on vegetable products range between 0 and 10% (at the 6-digit level) for all four Mercosur countries with a few exceptions: Brazil charges 55% on coconuts (HS 080111) and 35% on garlic (HS 070320), whereas Argentina charges 25% import tariff for garlic. The Mercosur countries do not charge any specific tariff and do not apply a tariff-rate quota system in their import regime for fresh fruit and vegetables. For prepared/preserved vegetables and fruits, ad valorem import rates are generally between 14 and 18% (MFN applied rates), whereas no tariffs are imposed on imports from Mercosur partner countries, whether this is a fresh or prepared/preserved fruit or vegetable product.

Despite the preferential treatment countries in the region benefit, Dutch traders do not consider import tariffs as a major problem for entering the Mercosur countries. When we interviewed six traders for this study, they confirmed the market access problem is largely the PRA procedure. They emphasised that a trade agreement should contribute in the first place to reduce the time and costs related to the PRA procedures and protocol specifications that are necessary to allow exports to Brazil and Argentina. The interviewed traders identified export opportunities for fruit (especially apples and pears) as West-European production seasons are complementary with those in the Southern Hemisphere and consumption grows, in particular in Brazil.

However, Dutch traders are also actively looking for other opportunities to import products from Mercosur countries to source EU countries and beyond (e.g. re-export to Russia). EU import tariffs of fruits depend on the calendar (highest in EU's production season), with significant tariff rates for, among others, grapes, citrus, mangos and melons. Meanwhile, EU imports from other countries in the Southern Hemisphere such as South-Africa and Chili have been granted zero rates. The result is that fruits from Mercosur countries have difficulties in competing on the EU market. Additional factors limiting Argentina's competitive position are the overvaluation of its currency (the government resists devaluing the peso against the USD despite 30% inflation in 2014) and export taxes on important food commodities (aiming at sufficient domestic supply and low local prices).

Table 5.3 below provides an overview of EU and Dutch imports of fruits and vegetables from Mercosur countries. Imports of vegetables are particularly low, yet the import value of fruits amounts to €1bn for the whole EU27, of which Dutch imports take about 40%, indicating that the Netherlands is an important importer and transit harbour to other EU countries and beyond of fruit from Mercosur. Imports are mainly tropical fruits like dates, figs, mangos (HS0804), citrus (HS0805), grapes (HS0806) and melons (HS0807).

Table 5.3

EU27 and the Netherlands imports of fruit and vegetables from Mercosur countries, value in €m.

	Fresh vegetables (HS07)				Fresh Fruits (HS08)			
	2012		2013		2012		2013	
	EU	NL	EU	NL	EU	NL	EU	NL
Argentina	165.6	15.1	94.2	16.5	416.6	158.6	489.3	184.3
Brazil	4.4	0.9	3.2	0.7	585.0	283.2	611.0	293.5
Paraguay	0.01	0.0	0.1	0.02	1.2	0.02	1.6	0.0
Uruguay	1.2	0.02	0.3	0.02	54.3	19.6	61.7	22.0
Total	171.1	16.0	97.7	17.2	1,057.2	461.3	1,163.6	499.8

Source: Eurostat

5.3 Case study on dairy¹⁶

5.3.1 Current bilateral trade relations and Mercosur's trade position in dairy products

Exports of dairy products from Netherlands to Brazil and Argentina has been only €8m and €1.2m respectively in 2013. For the EU, these figures were €33m and €3m respectively. Cheese is the largest category (see Table 5.4). Another important EU export product is whey.

¹⁶ This section benefits from interviews with Jan Maarten Vrij (NZO, 6 November 2014) and Wim Kloosterboer (KFC, 28 January 2015).

Table 5.4

EU27 and the Netherlands' exports of dairy products to Mercosur countries, 2013, value in €m.

	Netherlands		EU27	
	Total dairy exports	Of which cheese	Total dairy exports	Of which cheese
Argentina	1.2	0	3.3	0.7
Brazil	8.0	7.3	33.5	23.3
Paraguay	0.0	0.0	0.1	0.1
Uruguay	0.4	0.2	2.0	1.1
Total	9.6	7.5	38.9	25.2

Source: Eurostat.

The interest of Dutch and other EU companies in exporting dairy products to Latin America is slowly increasing, as this continent is considered a growing market for dairy products.¹⁷ Argentina has well-known favourable natural conditions for dairy production, making it very attractive to local and foreign investment. The country might have opportunities to expand its dairy production and increase its net-export position¹⁸, but internal policies (especially the on-and-off implementation of export bans or taxes)¹⁹ are not supportive to a medium or long-term investment strategy. Farmers switch easily from milk production to soya production if soya bean prices are more attractive. Milk processors are therefore hesitant to invest in expanding processing capacity due to this rather opportunistic behaviour of farmers (and policymakers).

Brazil shows an increasing consumption of dairy products. Milk production is increasing, yet imports are expected to continue in the near future, although these levels of imports (and exports) are modest (see Table 5.5). Typically, packaged UHT milk imports are sold by companies from Argentina and Uruguay with commercial interests in Brazil. Brazil also imports a significant volume of powdered milk, mainly from Argentina. With respect to import tariffs, rates are imposed on cheese, butter and milk powder in the range of 16 to 28%, but imports from Mercosur countries are duty-free, offering preferential access to its neighbouring countries. Trade figures (not presented) show that Argentina and Uruguay are Brazil's main sourcing countries for dairy products, accounting for about 80% of Brazil's dairy import value. The US is a competitive supplier of dairy ingredients, such as concentrated whey powder and lactose (USDA/FAS, 2014b). Imports from the EU are mainly cheese (as Table 5.4 above shows), which is about 20% of Brazil's total cheese imports in 2013.

¹⁷ For example: Friesland Campina has opened a sales office in Sao-Paulo recently to explore the local market in Brazil. This shows the ambition of this company to expand its presence at this market.

¹⁸ According to USDA/FAS (2014a) estimates approximately 25% of total milk output will be exported, primarily in the form of whole milk powder (WMP) and cheese. In 2014, Argentina's main markets were Algeria, Venezuela and Brazil. Cheese was mainly shipped to Russia, followed by Brazil and Venezuela.

¹⁹ Export taxes were eliminated in 2009 but in September 2013 the GOA announced that the use of export permits (ROE) previously required for just a few products, are now mandatory for most of the dairy products (USDA/FAS, 2014a).

Table 5.5

Mercosur countries' exports and imports of dairy products, 2013 (in USDm).

	Argentina		Brazil		Paraguay		Uruguay	
	Export	Import	Export	Import	Export	Import	Export	Import
0401-Milk and cream, not concentrated etc.	3.2	0.0	16.3	12.9	2.0	1.1	22.2	0.0
0402-Milk and cream, concentrated etc.	951.6	3.9	58.3	327.7	8.7	5.9	458.8	2.9
0403- Buttermilk, etc.	6.2	0.0	2.7	6.6	0.1	1.2	12.8	6.8
0404 Whey	152.8	3.1	0.1	53.3	0.0	0.1	25.2	0.6
0405 - Butter etc.	79.4	4.3	3.3	19.1	1.8	0.4	103.4	2.6
0406 - Cheese and curd.	256.2	15.7	13.1	166.0	1.3	12.2	251.5	6.0
0407 Birds' eggs	0.0	0.0	60.9	20.0	0.0	5.9	0.0	0.2
0408 - Birds' eggs, not in shell	16.3	0.6	2.6	0.0	0.0	0.1	0.0	1.1
0409 - Natural honey.	212.6	0.1	54.1	0.0	0.0	0.0	39.0	0.0
0410 - Edible products of animal origin, n.e.s.	0.3	0.2	10.6	0.0	0.0	0.0	0.2	0.3
Total	1678.7	27.9	222.1	605.8	13.9	26.8	913.0	20.6

Source: UNCOMTRADE

5.3.2 Trade obstacles and expectations when measures hampering trade are eliminated

Entering Brazil with dairy products is, however, tough and not only because neighbouring countries may be more competitive as they are near and benefit from zero import tariffs. Brazil applies stringent food safety requirements, which refers to two issues. One is that product labels have to comply with Brazil's requirements. Approval of labels (description of what is in the product, what is the origin of ingredients) results in a listing of companies that are potentially eligible for exporting to Brazil. This procedure can take about 3-4 months. Once on the export list, the companies are inspected thoroughly; that is, the plant where products for exports are produced is visited by a Brazilian inspection team. Requirements are checked on the spot and procedures should be followed to the letter as described in the Brazilian law. These checks are repeated and executed by the Dutch COKZ (Dutch controlling authority for milk and milk products) four times a year, as agreed in a bilateral inspection protocol.

By following this procedure, Brazil indicates not to recognise EU's dairy quality system. In the EU, companies that comply with EU dairy quality and food safety (health) standards are eligible for exporting from the EU perspective. Brazil's recognition of the EU dairy quality system would effectively mean the elimination of the country's companies' list of eligible EU exporters, and hence the onerous and time consuming inspections at the companies' premises.

The Dutch dairy industry is positive towards negotiating improved market access with Mercosur as it believes it would increase opportunities for exports to these countries. Although tariffs are still important (import tariffs imposed on cheeses range between 12 and 28% depending on the type) and elimination would certainly help create export opportunities, the trade negotiations should focus on reducing NTMs. This position is in line with the EUcolait position paper (released 19/05/2015), in which the European Association of Dairy Trade pleads for the ambitious SPS/TBT chapter to deal with Brazil's complicated procedure of approval of exporting plants and system of approving packing and labelling and with Argentina's 'sworn prior importer declaration'. All these measures are considered as hampering exports to these markets. Similar issues of major concern in the bilateral negotiations as far as dairy products are concerned are raised by the European Dairy Association (in which processing companies are allied) in its letter to the EU Commission (EDA, 2014).

A FTA and a more balanced level playing field may indeed offer the dairy industry increasing export opportunities to Brazil. A competitiveness assessment based on five economic indicators shows that the Dutch dairy industry performs better than the dairy processing industry in Brazil. Figure 5.1 below (from Van Berkum *et al.*, 2014) builds on two trade performance indicators (a Relative Trade Advantage indicator and world market shares) and three economic performance indicators (shares in

5.4 Case study on meat

Bilateral trade flows of meat and meat products indicate that the EU is an important importer of both meat commodities (HS02) and prepared meats (HS16) from Mercosur. Trade figures show that meat exports from the EU to Mercosur always have been rather modest, adding up to merely €16m for meat commodities and €14m for meat preparations in 2013. Imports, however, amounted to €2.4bn, of which €1.7bn for meat commodities and €700m for meat preparations. Table 5.6 presents the volumes of imports of meat (products) by the Netherlands and the EU in 2013 (including imports of the Netherlands), and the sourcing Mercosur countries. The table shows that in terms of volume imports are mainly beef (HS0201 and 0202) and different kinds of poultry meat (HS0207, natural; HS0210, poultry meat salted; and HS1602, poultry meat preparations). The main supplier is Brazil, as figures in the table indicate.

Table 5.6

Imports of meat (HS02 and HS16) by the Netherlands and EU27/28, in volume (1,000 tonnes), 2013.

HS code and shortened product name	Netherlands			EU 27/28		
	Brazil	Uruguay	Argentina	Brazil	Uruguay	Argentina
0201 Bovine, fresh/chilled	9.9	8.0	9.4	24.3	19.5	32.3
0202 Bovine, frozen	8.3	2.7	0.6	41.1	19.9	2.3
0204 Sheep or goat meat	0.0	0.4	0.3	0.0	1.9	0.7
0205 Meat of horses, etc.	0.1	1.0	0.5	1.3	1.7	6.8
0206 Edible offal of bovine etc.	0.0	0.0	0.0	0.0	0.1	0.2
0207 Meat and edible offal of fowls	40.5	0.0	2.4	106.1	0.0	8.3
0208 Meat and edible offal of rabbits etc.	0.0	0.1	0.8	0.0	0.1	1.2
0210 Meat and edible offal, salted, etc.	119.9	0.0	0.0	170.9	0.0	0.0
1601 Sausages etc.	0.0	0.0	0.0	0.0	0.0	0.0
1602 Prepared or preserved meat	90.2	0.0	1.3	226.5	0.1	3.9
1603 Extracts and juices of meat, etc.	0.6	0.0	0.0	1.8	0.0	0.0
1604 Prepared or preserved fish	0.0	0.0	0.0	0.1	0.5	0.5
1605 Crustaceans, etc.	0.0	0.0	0.0	0.0	0.0	0.0

Source: Eurostat.

Export competitiveness in the meat industry is affected by several factors, including cost of production, product differentiation, market access, transportation and exchange rates. Taking all these factors into account, the EU meat industry may have both offensive and defensive interests in trade talks with Mercosur.²⁰ Offensive interests point at export opportunities that, although they may not be large, are identified for pig meat and veal. Exports of pork or certain parts of pork heavily depend on price developments, as in 'normal' circumstances EU/Dutch supply is not price competitive at the Brazilian market (see Hoste, 2013). However, in 2014 hog prices in Brazil achieved record levels, with pork prices exceeding EU average prices. Increasing exports to Russia was the main driver behind this price development.²¹ Whether this situation lasts depends on the continuation of the Russian import bans against the EU, US and other countries, and the Russian import demand for pork (affected by domestic price and exchange rate developments). More than pork, probably, veal exports to Brazil - a Dutch offensive interest in particular - would be a promising opportunity as it is in demand by Brazilian restaurants. Veal remains a niche market prospect (high quality market segment, hotels and restaurants) and exports will probably not be more than a few thousand tonnes a year. However,

²⁰ Industry insights are based on an interview with Frans van Dongen (COV), 28 November 2014.

²¹ See several news items on www.pigsite.com over the period August 2014 up to January 2015.

similar to pig meat, exports of only a small volume would imply better prices on the internal EU market.

Officially, Brazil has lifted the BSE ban that used to block the export of beef and veal since the mid-1990s. Yet, in order to allow for exports, Brazilian inspection needs to visit the companies in the EU to check whether they meet the veterinary requirements. Brazil claims its veterinary services do not have the human capacity to visit the EU companies soon and therefore in practice, exports are still blocked until the Brazilian authorities give priority to this matter.

On the other hand, beef imports from Brazil are subject to stringent EU rules on Foot and Mouth Disease (FMD) control. Exports of beef are only allowed when meat is from animals from FMD free regions; animals from non-free FMD regions have to stay longer in quarantine before they can be sent to slaughtering houses and exported as meat to the EU. Since this rule was applied (2007/2008), Brazil's exports of beef to the EU has declined from about 300.000 tonnes to around 150.000 tonnes. The EU applies a pre-listing system of exporting companies (the Brazilian authority provides export certificates), inspection of Brazilian companies takes place afterwards (once every two or three years). According to recent FVO reports, Brazil does not fully comply with EU rules with respect to holding registration, identification and registration of cattle and animal movement controls (ear tags). When the establishments were visited, the official controls found that microbiological testing of carcasses were still not in line with EU requirements requiring action at the Brazilian side to rectify the shortcomings identified (FVO, 2013).

One could say that both sides would have an interest in improving market access for beef (and, hence, veal) to each other's market. Obviously, beef exporters in the EU (Ireland, France) have a defensive interest, as lower import barriers would imply more competition on their traditional EU markets. The meat processing industry in some of the other EU countries, however, seems to be open to import parts of the animal (especially 'front legs') from Brazil and Argentina, and would welcome the option to import these parts from Latin America under improved conditions.²²

Other defensive interests in the EU are in the pork and poultry meat sector. Pork production in Mercosur countries is not very competitive at international markets, except for Brazil (USTRC, 2012). Exports from other Mercosur members than Brazil are non-existing, whereas Brazil is the world's fourth-largest producer and fourth-largest exporter of pork. Brazil's main export destinations are Russia, Hong Kong and Singapore. Exports to the EU are non-existent due to the fact that the pork industry in Brazil produces pork with ractopamine, a feed additive that promotes feed efficiency. The use of ractopamine is not allowed in the EU, and imports of products produced with ractopamine are banned. Recently, Brazil claimed to produce ractopamine free pork. EU controls, however, still found a significant share of samples taken from pigs at slaughter to contain this substance, leading to the conclusion that the system in place is not yet sufficiently robust to guarantee that ractopamine is not being used (FVO, 2012). Meanwhile, Brazil has been able to increase exports to Russia in 2014 (after Russia banned US pork on ractopamine concerns early 2013 and the import ban on EU pork since early 2014 due to African Swine Fever), claiming to produce and export ractopamine free pig meat to Russia. Nonetheless, if (more) Brazilian companies can comply with EU requirements to guarantee pork is being produced free of ractopamine, Brazil may be able to export to the EU.

For poultry meat, the EU has clearly a strong defensive interest. Brazil is among the world's leading poultry exporters (export value of USD7.2bn in 2013), besides the USA. Argentina is a large net-exporter of poultry meat too (with an export value of around USD650m in 2013). Both Brazil and Argentina have low production and processing costs that contribute to their strong competitive position against the EU poultry industry. Among the European competitors, the Dutch industry is not doing badly (e.g. Van Horne, 2009; Van Horne and Hoste, 2013; and Van Horne and Bondt, 2013).

²² In the interview the business representative stated that the EU meat sector claims for all types of meat the sensitive product status when negotiating with third countries on market access. Therefore, the meat industry takes the position that the Commission should only offer zero duty tariff rate quotas (the volume to be negotiated) implying that out-of-quota volumes will remain to be charged by existing import tariffs and duties.

Table 5.7

Overview of EU quotas, imports in 2013 (both in tonnes) and levies of some poultry meat products.

	Poultry meat salted		Poultry meat preparations		Poultry meat naturel		Poultry meat preparations		Turkey meat preparations	
HS code	0210.9939		1602.3219		0207.1410/50/70		1602.3230		1602.31xx	
ad valorem levy (%)	15.4		8		6.4		10.9		8.5	
import levy in €/tonne	1,300		1,024		1,024		1,024		1,024	
	Quota	Import	Quota	Import	Quota	Import	Quota	Import	Quota	Import
Brazil	170,807	170,698	79,477	53,789	11,932	63,638	62,905	50,145	92,300	63,387
Thailand	92,610	51,419	160,033	164,396	5,100	6,779	14,000	13,920	0	0
Other	828	60,118	11,443	282,264	3,300	574,013	2,800	80,670	11,596	49,890
Total	264,245	282,235	250,953	500,449	20,332	644,430	79,705	144,735	103,896	113,277

Source: Van Horne and Bondt (2013: Table 4.3), extended with 2013 EU import data by the author.

Since the establishment of the import quotas in 2007, exports of Brazil to the EU of the poultry products mentioned in Table 5.7 are close to the in-quota tariff-free volume. The exception is the poultry meat natural (HS 020714) for which the EU grants Brazil a TRQ of only 12,000 tonnes: over the last six years (since 2007) EU27 registered imports varying between 60 and 100,000 tonnes (Eurostat trade statistics). This shows that import levies are not prohibitive and, hence, the TRQ is not binding for Brazil's supply of this product. This corresponds with Van Horne and Bondt (2013) showing that even with the current substantial import levies, the price of breast fillet from Brazil and Argentina is below price levels EU producers offer. In case import levies would be reduced by 50% (one of the scenarios the authors apply) and no additional levy would be charged, Brazil and Argentina (in addition to the USA, Ukraine and Thailand) would enhance their already strong competitive position even more at the EU market. Because of the distance, imported meat from Brazil and Argentina is frozen and, hence should be used in processed products as frozen meat may not be defrosted and sold as fresh meat. Future market prospects of the EU poultry industry, therefore, are largely in the fresh meat segment certainly when non-EU suppliers would get improved access to the EU market.

Textbox 5.1 Competitive strengths of Brazil's poultry industry

Brazil is among the largest broiler meat exporters of the world. An overview of the business activities of most of Brazil's poultry producers and processors is provided by the Brazilian Chicken Producers and Exporters Association (ABEF, unknown year). They provide numbers on slaughters and employees but the stance of the ABEF on the companies is biased by their association status. The strengths of the industry are low production costs (labour, energy and feed), an integrated production chain and fast adoption of new technologies. Brazil is also the home of the world's largest poultry processor: Brasil Foods, or BRF (Bell and Kindred, 2012). BRF, which also produces a whole range of non-meat convenience products, is the second largest employer in Brazil and the third largest exporter after the oil and mining industry. Almost 20% of these exports are distributed to Europe.

Literature primarily focuses on cost advantages for poultry processing firms. However, since companies grow or merge continuously, a few large players process a large amount of poultry meat and thus, firm structure and performance might have important influences on their ability to compete. In looking mainly at financial and productivity measures, Böcker (2014) compared structures and performances of the poultry industry for 49 firms from 10 countries. Böcker finds that the two Dutch companies in his sample - Plukon and G.P.S. Nunspeet - generally show higher profitability results than their competitors, are flexible and efficient in selling and hence would be able to compete with European and non-European poultry producing firms. A study like this, focusing on firm specific features and performances is a welcome supplement to a broader sector or industry approach.

6 Conclusions

This study provides insights into the current trade relations in agrifood products between the EU and Mercosur and assesses the impacts of a possible trade agreement between the two blocs. Current trade relations show that overall, the EU's comparative advantage is in industrial products whereas Mercosur countries have an interest in increasing access to the EU for agricultural products. Quantitative analyses of different sets of trade liberalisation scenarios show that whereas overall economic impacts are positive on both sides, economic losses fall heavily on the agricultural sector, as far as the EU is concerned.

Those projected, overall negative effects for the agricultural sector in the EU resound in the position of the meat sector, especially in the poultry meat sector. Supply from Mercosur is quite competitive and may be expected to gain from any improved access to EU markets that may arise from a trade agreement, increasing adjustment pressures to the EU (Dutch) industry. Imports of meats from Mercosur, though, will be mainly in frozen form, which means that the main prospects for the Dutch industry lie principally in the fresh meat and quality segment. The Dutch fruit and dairy sector, on the other hand, considers export opportunities to increase in case the EU and Mercosur would agree on further opening up their respective markets. Current export opportunities of both sectors in Mercosur countries are greatly reduced by non-tariff measures and other trade friction costs. Hence, such non-tariff trade barriers should be addressed as part of any such agreement. The fruit and vegetable sector is keen to find new markets for Dutch quality products but also to benefit from importing products from the Southern Hemisphere in order to enhance the position of Dutch traders sourcing Europe. Brazil (and Venezuela if it joins the negotiations) are net importers of dairy products. As consumption in these countries grows, the EU (Dutch) dairy industry may find important attractive markets once trade negotiations result in reducing the costs of the complicated procedures of export approval.

All in all, negotiations on a trade agreement will need to focus in the first place on reducing the costs of non-tariff measures, as bringing back the divergence in standards and regulations, and harmonising and speeding up all activities around conformity assessment (testing, surveillance, inspection, certification and so on) would greatly decrease trade costs. These trade costs are currently significant, for both sides and for a range of agricultural products, and substantive gains may be achieved in this area. Yet, defensive interests predominate for some agrifood sectors in the EU. At the same time, Mercosur (Brazil) has a number of defensive interest in manufacturing, investment and public procurement (among others). Hence, a fully-fledged free trade agreement between the two blocs might not be realistic in reach in the short term. Messerlin (2013), identifying the most efficient instruments of negotiation, recommends to focus on mutual recognition, that is to agree on a joint process of mutual evaluation of regulations in question by the two parties. The aim of the process is not to impose one's own version of regulations, but for partners to trust each other and their respective regulations to be able to recognise unconditionally the partner's regulations. This may not sound very ambitious but could create some dynamics and establish trust among negotiators, business and consumers from all negotiating countries, which would allow for next steps to further cooperation and integration, and hence could be on the long term a successful strategy.

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Appendix 1

A1. Structure of Dutch agrifood exports to and imports from Third countries

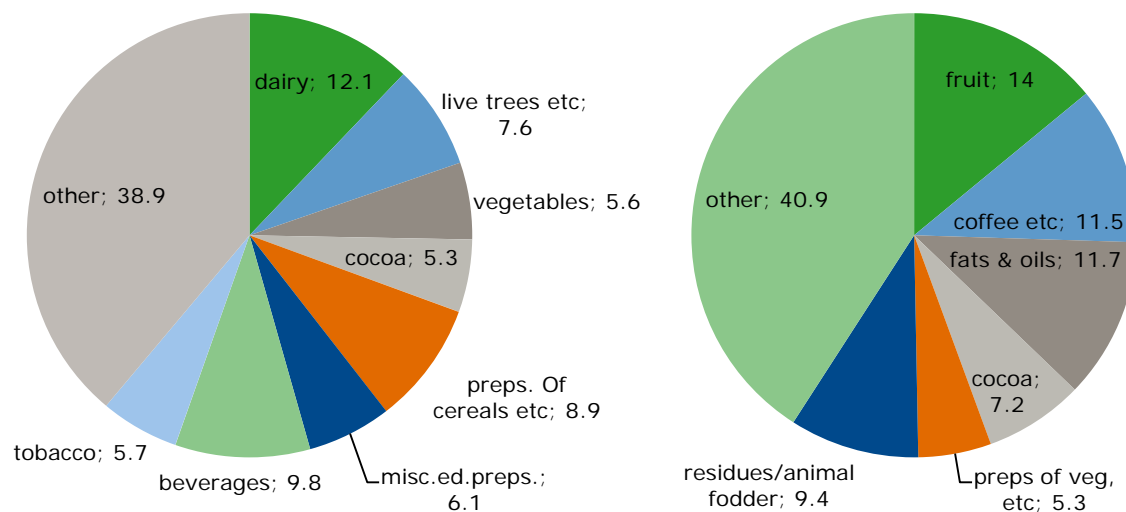


Figure A.1 Structure of the Dutch agrifood exports (left) to and imports (right) from Third Countries (non-EU-countries), 2013 (% of total Dutch agrifood export and import value).

A2. UNCTAD classification of NTMs

Table A.1

Non-tariff measures according to the UNCTAD classification

Technical NTMs	A. Sanitary and Phytosanitary measures
	B. Technical Barriers to Trade measures
Non-technical NTMs	C. Pre-shipment inspections, formalities
	D. Price control
	E. Licences, quotas
	F. Charges, taxes and other para-tariffs
	G. Finance measures
	H. Anti-competitive measures
	I. Trade-related investment measures
	K. Distribution restrictions, restrictions on sales/services
	L. Subsidies (excluding export subsidies)
	M. Government procurement restrictions
	N. Intellectually property rights
	O. Rules of origin

Source: MAST, NTM classification, available online under <http://ntb.unctad.org>.

A.3 Competitiveness indicators

In Van Berkum *et al.* (2014) the following indicators to quantify the competitiveness of industry were selected:

- Trade related indicators:
 - Growth of the export share on the world market of a specific subsector of the food industry of the food industry as whole. The market share of one country is compared with the total world export of that (sub-) industry. This performance indicator reflects the outcome of the competitive process.
 - The difference of the Relative Trade Advantage (RTA) index between 2 periods. The RTA is defined by Scott and Vollrath (1992) as the difference between the Relative Export Advantage (RXA) and the Relative Import Advantage index (RMA). A positive RTA indicates a competitive advantage: the exports exceed the imports. Negative values signify competitive disadvantages. In the report also the RXA and RMA will be presented, indicated whether the advantage is the result of higher export or lower imports.
The flaw of the RTA is that re-export might suggest high competitiveness of one industry. These transit activities might be influenced by a good performance of another sector i.e. logistics or by beneficial natural and infrastructural conditions like sea or airports.
- Economic performance measures:
 - Annual growth of the value added of a specific industry in the total food industry. This reflects the competition for product factors between different industries within a country;
 - Annual growth of the value added per employers as indicator for labour productivity. This affects the unit labour costs and in this way the relative prices.
 - Annual growth of value added reflects the performance of that specific (sub-)industry.

The methodology is based on annual growth percentages of the indicators, except for the trade indicators. In the latter we use the difference of the indicator outcomes between 2 periods. For instance, the market share in 2011 minus the market share in 2000. In Wijnands *et al.* (2007) raw materials as well as processed products are included in assessing the competitiveness of the food industry. Trade in raw material is a determinant of the competitiveness of the primary sector, while processed products are linked to the processing industry. This study will distinguish between processed and raw materials. The UNComtrade product codes are linked to the NACE industry codes. The revision envisages selecting only processed products from the trade database for assessing the food industry's competitiveness for the 'trade' indicators.

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